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Special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development

Provisional summary record of the 7th meeting
Held at Headquarters, New York, on Friday, 19 March 2010, at 3 p.m.

President: Mr. Ali ..... (Malaysia)

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The meeting was called to order at 3.10 p.m.

Special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (*continued*) (E/2010/11)

Thematic debate of the whole on Theme 3: Enhancing coherence and consistency of the international monetary, financial and trading systems in support of development

(a) *Preview of the Department of Economic and Social Affairs flagship publication, World Economic and Social Survey 2010: "Towards a New Development Paradigm: Coherence in Development Policy and International Cooperation", by Mr. Robert Vos, Director, Development Policy and Analysis Division, Department of Economic and Social Affairs*

1. **Mr. Vos** (Director, Development Policy and Analysis Division, Department of Economic and Social Affairs) said that the global economic and financial crisis of 2008 and 2009 had exposed systemic failures in the workings of financial markets and gaps in economic policymaking. The rapid spread of the financial fallout in the United States of America had underscored the interconnectedness of the global economy, while skyrocketing and highly volatile world food and energy prices had reflected the chronic neglect of agriculture and lack of secure energy supplies. The consequences of climate change were exacerbating the situation.

2. The multiple crises had drawn attention to the need for major reforms in economic governance mechanisms and for new thinking about economic development. Sustainable solutions and a new balance between local decision-making and international institutions were needed. Retooling global development was the main theme of the *World Economic and Social Survey 2010*, which offered ideas to guide development policies and international cooperation.

3. The present time might prove to be a watershed in history as four major changes were occurring in the global economy. First, the balance of economic power was shifting; new economic powers were appearing in Asia while the living standards of some developing and developed countries were converging. Yet other countries, especially in Africa, were falling farther behind, giving rise to new tensions and insecurity.

4. Second, demographic changes over the next four decades would increase the world's population by 2.2 billion and by 2050, 85 per cent of a world population of 9 billion would be living in developing countries. Pressure on pension and health systems would increase with one person in four in the developed countries and one person in seven in the current developing countries over 65 years of age. Declining and ageing populations in developed regions might induce larger migration flows and developing countries would have growing urban populations. By 2050, an estimated 70 per cent of the world's population would live in urban areas. If timely action was not taken, changing food patterns would lead to land use shifts and further deforestation, higher energy use, rising food prices and regional food shortages.

5. Third, population pressures were already having environmental impacts with forests reduced by 30 to 50 per cent, groundwater sources depleting rapidly and biodiversity being lost. The burning of fossil fuels produced about 30 billion tons of carbon dioxide each year; if climate change was to be contained, energy systems, industrial production processes and infrastructure would have to be transformed in the decades ahead.

6. Fourth, the global interconnection of economic processes meant that international companies were increasingly dominating agricultural and industrial production and that problems in one part of the financial system could cause shockwaves elsewhere. Yet, despite the global challenges, the policies, rules and institutions governing those processes were mostly local while multilateral mechanisms were strongly compartmentalized.

7. Global governance institutions had to be reformed in a way that allowed nations and peoples to determine their own destiny. Under the Monterrey Consensus, developing countries had primary responsibility for their own development and developed countries undertook to sustain an international environment that facilitated development. That distribution of labour could create tension at a time when truly global solutions were needed.

8. Retooled national development policies and mechanisms for international cooperation and global governance had to facilitate a fairer and more

sustainable global development path. Policy coherence was therefore the central theme of the forthcoming *World Economic and Social Survey*. Retooling was a complex task: it was difficult to predict which policies would work best and there could be conflicts between national and international goals. The issues covered in the report included policy coherence in trade and finance, aid architecture and international support for the poverty and sustainable development agenda.

9. The Doha round impasse was largely a consequence of the difficulty of striking a balance between the desire for a common set of rules and the principle of accommodating differential capacities. More progress had been achieved in setting common rules, but rapid trade liberalization had progressively restricted developing countries' ability to use trade policies to promote sustainable, stable growth, domestic investment and employment absorption. Less progress had been made with the differentiated aspect of the approach, including the provision of duty- and quota-free market access for developing countries' products. Agricultural subsidies in the developed countries remained high, which reduced income opportunities for developing countries' farmers. Even when such obstacles were overcome, trade could not lead to growth unless developing countries had adequate production and trading capacities. The Aid for Trade initiative did not provide sufficient support and lacked coherence with broader national development policies. Thus, implementation of the common but differentiated approach would have to be reassessed. Internationally authorized subsidies in support of the export industries of developing countries should be truly selective, temporary and performance-related.

10. As multilateral trading rules also posed hurdles to the transfer of technology to developing countries, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) was an area of continued controversy. Such hurdles made industrial development more expensive and ran counter to sustainable development objectives. Developing countries needed clean energy technologies and adequate financing support if they were to engage in catch-up growth while contributing to the reduction of greenhouse gas emissions.

11. In recent decades, deregulation of capital flows and domestic financial sectors had enabled international private capital flows to grow at a faster rate than world trade. However, volatile flows to developing countries had challenged macroeconomic policy management and limited their options for using exchange-rate policies to promote exports. Many developing countries had accumulated large foreign exchange reserves as a safeguard, but that required making net financial transfers to reserve-currency countries, which had been one element in the explosive growth of global financial imbalances.

12. Systemic flaws in the international financial architecture were at the centre of the current global economic crisis and had played a role in the fuel and food crises. An overhaul of existing regulation and governance mechanisms for global finance was needed. Better international policy coordination would help achieve a balanced recovery from the crisis since the present path to recovery could lead to further problems in the future. The external deficit of the world's largest economy, the United States of America, was widening again and there were growing trade surpluses in China and other parts of the developing world. Those imbalances were part of the problem that had led to the crisis and implied that more financial resources would be flowing from poor to rich countries. Greater policy coordination could address those imbalances and align global recovery efforts more consistently with development objectives and climate change mitigation initiatives.

13. At the Pittsburgh Summit, the Group of Twenty had promised to establish a policy coordination framework for "strong, sustainable and balanced growth" of the world economy. Rebalancing that economy would take years and international policy coordination would have to be embedded within multilateral institutions. Bold action was needed in order to move towards fair and sustainable global development. He hoped that the *World Economic and Social Survey 2010* would advance international discussion on those two difficult but urgent problems.

(b) *Presentation by Mr. Detlef J. Kotte, Head, Macroeconomic and Development Policies Branch, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development*

14. **Mr. Kotte** (Macroeconomic and Development Policies Branch, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development), accompanying his statement with a computerized slide presentation on global policy

coherence, said that the content of the United Nations Conference on Trade and Development (UNCTAD) *Trade and Development Report* was usually complementary to that of the *World Economic and Social Survey*. The 2010 *Report* would focus on employment policies adopted in the aftermath of the financial crisis and in response to structural changes in the world economy that had been apparent before the crisis and would continue for several years to come. It would look at macroeconomic policies and their impact on employment and consider new approaches to employment policies in the developed and developing countries in the future.

15. The outbreak of the crisis had led to bold calls for a new Bretton Woods agreement. Since then, the Group of Seven, the Group of Eight and the Group of Twenty had focused on short-term stabilization measures with some counter-cyclical policy coordination and financial regulation reform. However, little had been done to reform the international monetary and financial system or to deal with macroeconomic and monetary issues.

16. The crisis had been the result of financial fragility and instability, and of the unsustainable current account imbalances that had built up between the United States and China, among various other industrialized countries and among smaller industrialized countries and emerging market economies. Those imbalances had been largely a result of the currency instability and misalignment that had increased over the past 25 years. Excessive fluctuations in commodity prices had been followed first by their collapse after the crisis, and then by their resurgence without a recovery of the world economy; those occurrences were part of the same crisis.

17. The current account imbalances were probably the result of an ineffective international exchange rate system in which exchange rate movements were affected by financial flows, the changing sentiments of financial market participants and a lopsided distribution of domestic demand in the various countries. That situation might not have led to current account imbalances if the international monetary system or exchange-rate system had functioned better and if there had been a greater degree of macroeconomic policy coordination.

18. The dollar's role as a reserve currency had contributed to the situation. It was likely that exchange rate adjustments would otherwise have been smoother and would have led to an earlier adjustment of the United States deficit and of the corresponding surpluses of other countries. Another factor was increasing speculative capital flows of the carry-trade type, attracted by interest rate differentials among countries.

19. The third cause of instability and misalignment was the fact that exchange rates had been pegged incorrectly or left entirely to the market. In both cases, exchange rate management had not ensured the stability of international exchanges and of growth in the world economy.

20. Excessive commodity price fluctuations had been largely the result of the financialization of commodity markets by agents who dealt in commodity contracts as an alternative to financial assets. In the case of index trading, participants in the market were entirely detached from the fundamentals of any single commodity market. Fundamental factors had also been at work in primary commodity markets, but they could not explain the large fluctuations of the previous three years.

21. The systemic problems seemed to indicate that the International Monetary Fund (IMF) and the Financial Stability Board were unable to maintain international monetary and financial stability. They had not been effective in persuading States to take action to prevent the crisis. One reason was probably the asymmetric IMF surveillance, which was effective for debtor countries but not for non-borrowers and was especially ineffective for systemically important countries. Although the Fund had made efforts to establish multilateral exchange rate surveillance in recent years, the exchange rate management of major reserve currencies had not been adjusted in light of the increasing current account deficit and IMF had not played a major role in imposing macroeconomic policy coordination among its members.

22. Financial markets had been expected to find the right exchange rates. If countries' current account deficits implied that they had capital account surpluses, then as long as the markets financed those deficits through capital exports, the deficit was not viewed as a problem. However, the crisis had clearly shown that the "judgement" of financial markets could not be trusted.

23. Previous crises had also shown that the international liquidity provided by IMF had not been sufficient for Member States to take the necessary counter-cyclical action. Since the Fund's liquidity provision had often been unreliable, developing countries had increasingly chosen to accumulate large cushions of foreign exchange reserves. The pro-cyclical conditionality of IMF loans and credit had often made things worse.

24. The main reason for the lack of coherence in the global governance system was that although the World Trade Organization (WTO) provided a framework for multilaterally agreed rules and disciplines in international trade, the absence of such rules and disciplines in international monetary and financial relations had exposed surplus countries to the financial markets of deficit countries. That absence also allowed for trade distortions because exchange rate volatility and misalignment could change the relative competitiveness of producers in different countries in a way similar to tariffs and quantitative restrictions. Although exchange rates were not product-specific, they could cause considerable distortions in international trade since their movements were currently much less predictable than changes in international trade policies and tariffs. They therefore had a negative impact on investment and led to less creation of productive capacity, including in developing countries, than would be possible within a more stable exchange-rate system.

25. Financial regulation, which was currently decided at the national level, clearly required some degree of international surveillance and coordination in order to avoid major arbitrage owing to significant differences in financial regulation. There was also a need for stricter regulation of commodities future markets in order to reduce the potential impact of entirely speculative participation in those markets by financial actors.

26. As for macroeconomic governance needs, there had been discussion, over the past two years, of the usefulness of creating a reserve medium other than the dollar. Another option would be to establish multilaterally agreed rules for exchange rate management, comparable to the multilaterally agreed rules for trade policies. Countries would have to take macroeconomic policy coordination seriously if they wanted to prevent future financial and economic crises in the world economy.

27. At the national level, counter-cyclical policies should be strengthened. The unorthodox immediate response to the current crisis had been successful in the major industrialized countries, but only in some developing countries as most of them did not have the institutional and financial means to take counter-cyclical action. The conditionality of international financial support should take into account the importance of leaving those countries the necessary policy space.

28. A country issuing a reserve currency had no need to undertake current account adjustments or macroeconomic policies that led to adjustments in its current account because its deficit could be financed with its own money. Another problem was that an international reserve currency was made available according to the national needs of the issuing country rather than the needs of the international system. Lastly, there was the Triffin dilemma: the issuing country had to run a current account deficit in order for other countries to accumulate reserves.

29. The role of special drawing rights (SDRs) could be strengthened in various ways. Member States could exchange national currencies for SDR balances at IMF through a substitution account, or new SDRs could be created as foreign exchange reserves. Certainly, a greater role for SDRs would reduce the world economy's dependence on the dollar and allow more reliable and counter-cyclical provision of international liquidity. However, it would require a major reform of IMF and its operating rules. As SDRs were made up of a basket of currencies, the reserves would by definition be more stable than any individual currency. If access to SDRs were as easy as access to reserves of countries' own national currencies, exchange rate management for developing countries and emerging markets would be facilitated. Such a solution would be less costly than the holding of dollar reserves because SDR loans would not be subject to payment until they were drawn upon. However, the potential for bilateral misalignment and exchange rate instability between individual countries would remain. A rule for exchange rate management would be an important element of reform of the international monetary and financial system, but that the rule would not involve either a fixed exchange rate or an entirely floating one as neither approach had been shown to provide greater stability.

30. The UNCTAD proposal had been elaborated in its 2009 *Trade and Development Report* and other publications: each country should aim to achieve a stable real exchange rate at a level consistent with a sustainable current account position that did not rely on a large inflow of finance not related to real domestic investment or trade finance. Such an exchange rate mechanism would curb the excessive currency speculation of the carry-trade type as any positive interest rate differential would be compensated for by an exchange rate adjustment. Such a rule could prevent large current account deficits resulting from currency misalignment because it would not allow for long-lasting currency overvaluation as the result of speculative flows or deliberate policies. It would also help avoid unsustainable debt accumulation and large net foreign asset positions of corresponding surplus countries and would minimize the need for holding international reserves since the risk of financial crisis would be much smaller. Nevertheless, discussion of an alternative reserve currency would be of secondary importance once there were rules and disciplines in the international exchange rate system.

31. Since exchange rate reform, which had not even begun as yet, could not resolve the entire problem, complementary measures might be necessary. Meanwhile, countries should undertake "second-best" reforms by institutionalizing macroeconomic policy coordination.

32. Macroeconomic surveillance and discipline by IMF, or any internationally agreed body, should be strengthened and there should be internationally agreed rules and willing compliance with them by both indebted and systemically important countries. Developing-country policymakers should draw the lesson that dismantling all obstacles to private capital flows was not the best recipe for advancing economic development and that surging capital flows were not an indicator of great economic performance as they were more likely to be followed by a serious financial crisis.

33. Policy advice to developing countries should also take those lessons into account. For emerging markets in particular, it was important to realize that financial regulation had to be intensified along with expansion of the domestic financial market in order to avoid a financial crisis.

Informal interactive dialogue

34. **Mr. Gálvez** (Chile), speaking on behalf of the Rio Group, said that a new international financial architecture was needed in order to ensure the democratization of financial management and the strengthening of mechanisms to regulate international financial flows.

35. The 2010 United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development and the 2002 International Conference on Financing for Development had reaffirmed the urgent need for reform of the entire international financial and economic system. The organizations of that system, including the Bretton Woods institutions, should be more representative and should allow for greater participation of developing countries in decision-making. The United Nations should play a central role in that reform process and in global economic governance in view of its universal and democratic nature and its promotion of comprehensive development.

36. He wondered whether the representative of UNCTAD thought that the Group of Twenty peer review mechanism could fill the gap in IMF surveillance of systemically important countries and, more generally, in global economic governance. He asked the representative of the Department of Economic and Social Affairs to identify the weaknesses in global economic governance to which he had referred, to explain what could be done to improve that governance, and to describe the role of the United Nations in promoting international measures for sustainable development and the Organization's projected role under the new architecture.

37. **Ms. Griesgraber** (New Rules for Global Finance) said that while IMF certainly could function as the lender of last resort, in practice it had not done so because of the heavy conditionalities attached to its loans. There had not been adequate discussion of the proposal for an international sovereign debt workout mechanism. She endorsed the calls for a global reserve currency that was not a national currency but questioned the utility of SDRs. The current system for measuring gross domestic product (GDP) was useless because it ignored the costs of pollution, resource depletion, and other factors to which economists such as Joseph Stiglitz and Amartya Sen had drawn attention. Decisions should be taken at the lowest

possible level, and she supported the establishment of regional monetary funds.

38. Above all, with the IMF mandate prominently on the agenda of the upcoming April 2010 meeting of the International Monetary and Financial Committee, it was time to have a frank discussion of ways to make IMF a responsible and competent institution. It should give greater weight to populations and to purchasing power parity. The Financial Stability Board, which exemplified the practice of wealthy countries making decisions in secret for the rest of the world, needed to be more transparent. IMF surveillance should shift resources from bilateral to multilateral analysis and should be equally binding on rich and poor countries. The Fund should expand its staff to include economists who considered the impact of policies on human beings, in particular with regard to employment, and on issues involving the greater public good, such as climate change.

39. **Mr. Vasiliev** (Russian Federation) said that measures should be taken to improve the global reserve system. An increase in the number of reserve currencies would help level out global imbalances and promote greater sustainability of the international financial and economic architecture. Regional currencies could replace international reserve currencies for countries in a region with developed mutual trade. In order to introduce such currencies, the issuing countries should follow a responsible, more open money and credit policy and should observe international rules for macroeconomic and financial discipline. Global regulation should be strengthened on the basis of international law and a system of multilateral agreements and the role of leading international organizations and institutions should be reconsidered.

40. **Ms. Cormon-Veyssière** (France) said it was clear that enhanced global economic governance was necessary in order to mitigate the negative effects of globalization. The need for strengthened regulation of the international financial system and more equitable representation in the Bretton Woods institutions had been mentioned several times. A new growth model that incorporated social priorities and the concept of green growth, as advocated by economists such as Joseph Stiglitz, was needed. Such a change could not occur without global coordination and cooperation through institutions such as the United Nations. As future president of the Group of Eight and the Group of Twenty, France assumed particular responsibility for ensuring that the needs of developing countries were taken into account.

41. **Mr. Chávez** (Peru) said that the crisis was international and therefore called for international solutions that went beyond the banking or financial sectors to address the effects of the crisis on the most vulnerable populations and the imbalances in labour flows brought about by migration. Peru had been less affected than other countries by the crisis, owing to prudent social spending and fiscal discipline that could be emulated by others. It was important not to succumb to the temptation to restrict the free flow of trade; it was precisely in times of crisis that countries should behave responsibly and avoid protectionism.

42. **Mr. Luo** Yang (Executive Director, IMF) noted that Chapter I, article 3, of the IMF Articles of Agreement listed promoting exchange stability as one of the Fund's most important functions. During the Asian financial crisis, the Chinese Government's resistance to pressure to devalue its currency had been one of the keys to recovery. He hoped that the countries with global influence in the current crisis would similarly maintain their currencies' stability and would not seek to restrict China's export trade; to do so would damage their own economies as much as China's and in any event, over half of that country's exports were produced by foreign or joint venture companies. Trade disputes should be resolved through negotiation rather than pressure tactics, with all countries on an equal footing.

43. It was important not to exaggerate the power of exchange rates to restore economic balance. Countries needed to look within their own national economies for solutions, starting with the reform of regulatory frameworks and removal of export restrictions. He agreed that the role of special drawing rights should be reviewed and that global governance needed to be more democratic.

44. **Mr. Onambélé** (International Chamber of Commerce, Cameroon, accredited through the International Chamber of Commerce) said that the private sector needed to play a significant role in development alongside the United Nations, the Bretton Woods institutions and donor countries. One of the reasons that international financing for development was falling short in the Gulf of Guinea was that the funds were coming from public sources, primarily the World Bank. That, in turn, was because money spent

on the economies of the developing world, and in particular Africa, was perceived more as a charitable contribution than as an investment that could return a profit. But Africa had made progress in the fields of education, health care and communications and investment would accelerate that progress. The industrialization of agriculture and local-level processing of raw materials were sectors that could be extremely profitable. His country and region were open to any sources of capital that wanted to invest in Africa not for the purpose of "helping", but in order to make money. There was a perception that middle-class Africans were dishonest, but many of them were hardworking entrepreneurs who simply needed technical assistance and political support in order to build viable partnerships with the international private sector.

45. Governments of the North should adopt policies for the aggressive promotion of investment in Africa and should themselves invest in and benefit from profitable initiatives. International organizations, including the Bretton Woods institutions, should provide technical and financial support for the establishment of such an institutional framework, which, once in place, would attract private investment as well. The International Chamber of Commerce would also have a role to play in that process.

46. **Mr. St. Aimee** (Saint Lucia), speaking on behalf of the Caribbean Community, said that while his region had not yet seen any signs of recovery from the crisis, the States of the Caribbean Community (CARICOM) had not been idle. They had a history of good governance and prudent macroeconomic policies and had embarked on an ambitious effort to create a single region market and economy; the fact that seven of them had a common currency had served as a buffer during the worst of the crisis.

47. The small developing States of the region had, however, little influence on the global and economic trends that had significant implications for their growth and development. The crisis had strengthened the case for multilateralism and had highlighted the importance of financing for development and a successful outcome to the Doha Round. He noted with interest the recommendation, contained in paragraph 38 of the report of the Secretary-General entitled "Building on Monterrey and Doha: towards achieving the internationally agreed development goals, including the Millennium Development Goals" (E/2010/11), that the United Nations system and international organizations should provide timely and well-coordinated international relief assistance to countries with special needs. He also supported the suggestion that the Committee of Experts on International Cooperation in Tax Matters should be converted into an intergovernmental subsidiary body of the Economic and Social Council, in order to allow enhanced international cooperation with developing countries, address emerging issues such as the tax consequences of climate change and give those countries a greater voice in standard development.

48. **Mr. Ovalles-Santos** (Bolivarian Republic of Venezuela) said that the issue of global reserve currency was a high priority for his country, and asked whether it was possible for the question of special drawing rights to be addressed outside the context of IMF.

49. **Mr. González Segura** (Mexico) agreed that the crisis called for a multilateral response, with enhanced coordination between the United Nations and the Bretton Woods institutions. His country participated in the Central American Integration System and other regional coordination mechanisms. It also played an active role in the Group of Twenty and welcomed the proposal that the President of the Council should participate in meetings of that Group.

50. **Mr. Dos Santos** (Paraguay), speaking on behalf of the Group of Landlocked Developing Countries, said that there was an imperative need for an international financial system in which the developing countries could play a leading role in order to ensure that the international economic and financial structure was supportive of their development efforts. The relationship between export growth and GDP growth had not been constant. Commodity exports, on which landlocked developing countries were heavily dependent, were affected by price volatility, the adverse impacts of the multiple crises on demand, tight credit and deteriorating expectations about the evolution of economic activity that affected consumption and investment decisions.

51. The Doha Round negotiations on trade facilitation offered an opportunity to offset some of the impacts of the crisis. Since landlocked developing countries were dependent on their neighbours for access to foreign markets, they were particularly interested in resolving transit and customs issues in order to ensure a smoother flow of goods across borders. He called on the United Nations, the Bretton

Woods institutions and WTO to enhance the coherence of international policymaking and build on the lessons of the very recent past in order to ensure that trade, financial and development policies were fully supportive of each other.

52. **Ms. Barendregt** (Senior Advisor, International Monetary Fund) said that while IMF had been unable to prevent the crisis, its reactions had been beneficial in several ways and there was broad support within the Fund for reforms to its mandate, quota system and governance. The Fund's role in ensuring global financial stability was not precisely defined and needed to be clarified; it also had a role to play in coordinating efforts to create a more robust financial system. IMF surveillance needed to focus more on the spillover effects of domestic actions, which would depend on States' willingness to take those effects into consideration when formulating domestic policies. The countries that she represented were in favour of strengthening peer review and mutual accountability among the Fund's members; the Group of Twenty mutual assessment process provided a good model in that regard. The international monetary system was another area to be considered; however, given that currency disruption had not played a major role in the current crisis, it would be imprudent to rush to do away with the existing system until alternatives had been thoroughly considered. The role of SDRs, in particular, deserved further study.

53. **Mr. Martín Carretero** (Observer for Spain) noted that coherence in the global financial architecture in pursuit of the MDGs would be more readily achieved if there was consistency in national financial, trade and environmental policies. To that end, the European Union was working to promote greater policy coherence and to develop indicators in the areas of trade, finance, food security, international migration, human security and climate change. The multilateral system itself must, of course, work actively towards coherence and, in the process, the Bretton Woods institutions in particular had to become more inclusive. Also, various organizations should come together to establish coherent joint assistance, taking into account conditionality and the goal of national ownership. Another key to coherence was to devise internationally applicable incentives and standards, such as the International Labour Organization (ILO) labour standards. On the other hand, a serious obstacle to the coherent achievement of the Goals was the extent to which tax evasion and capital flight cut into the resources available to governments.

54. **Mr. Nasir** (Observer for Indonesia) recalled how quickly currency speculation had eroded confidence in his own country's entire economy, recently pushing it to the verge of bankruptcy, and asked how the UNCTAD representative would recommend reducing currency speculation and whether he thought a financial transaction tax would be useful.

55. **Mr. Macheve** (Mozambique), supporting those who had spoken in favour of increasing the role of the United Nations system in support of global economic governance, said that coherence was an important issue for Mozambique, which was working to improve United Nations programme delivery at the country level. He would like the panellists to elaborate on the efforts being made by the Bretton Woods institutions and the United Nations system to explore further means of coordination among them, especially through greater harmonization of strategic frameworks, instruments, modalities and partnership arrangements in support of national development programmes and strategies.

56. **Mr. Geadah** (Alternate Executive Director, International Monetary Fund) said that IMF was trying to make its surveillance multilateral by not treating any country as an island unto itself, but rather monitoring annually the effects of the world economy on each country, and the effects of each country's economy on those of other countries. Also, IMF surveillance of the traction of its advice in no way indicated that its advice was taken by poorer countries, whereas it had, in his experience, been taken very seriously by some advanced European countries.

57. For some years, IMF had been working on a credible, transparent formula that would shift quota shares from the advanced to the developing countries. Its programmes had been described as pro-cyclical, but the more recent ones would have to be categorized as anti-cyclical. In any event, the programme focus was always on helping a country achieve sustainable growth in the medium term.

58. As to the availability of resources, IMF was not a lender for all country needs. It acted as a credit union that paid out but also recovered funds from member countries and ensured that the funds provided had been

used responsibly. It also served as a catalyst for other donors to bring in supplementary funds.

59. **Mr. Rosenthal** (Guatemala) asked the panellists to comment on the connection between the Group of Twenty — the forum which had acted most energetically during the global economic emergency — and both the Bretton Woods institutions and the United Nations system.

60. **Ms. Novoa** (Uruguay) asked the representative of UNCTAD how the new, inclusive and equitable system of international financial rules that he had described would be implemented and what body would be in charge of negotiating, applying and monitoring the compliance with those rules.

61. **Mr. Harris** (Special Representative of the International Monetary Fund to the United Nations) said that the global crisis was allowing IMF to see in a fresh light problems that had long been recognized and to move forward on them. Surveillance issues, for example, had been the object of much thought for several years before the Fund's 2007 Decision on Bilateral Surveillance, which had made it easier to advance bilateral, regional and multilateral surveillance and to establish links between the financial sector and the real sector. In reply to the representative of New Rules for Global Finance, he said that IMF recognized the need for a different mix of skills and, in the past 18 months, had been recruiting financial-sector experts to complement the macroeconomists already on its staff.

62. Concerning the presentation by the representative of UNCTAD, he said that the Fund's focus had always been on sustainability, not cyclicality. Where countries had been unable to take counter-cyclical measures in response to the crisis, they had invariably done so because they lacked the necessary resources. Where financing from the international community was available, IMF programmes were extraordinarily flexible and gave countries the latitude they needed in order to act.

63. The representative of UNCTAD had spoken of the need for multilaterally agreed rules for exchange rate management and, in particular, of the need to stabilize the real exchange rate at a level consistent with a sustainable current account position. He wondered how and by whom that would be accomplished.

64. **Mr. Kotte** (Head, Macroeconomic and Development Policies Branch, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development), replying to the question raised by the representative of Chile on behalf of the Rio Group, said that peer review in the Group of Twenty and IMF helped States identify common or conflicting interests and arrive at mutually acceptable solutions. While reliable, that process was still a far cry from the institutional framework provided by trade policies under WTO. A complex system of that kind, which included rules and sanctions, should be the goal in the macroeconomic and monetary policy context as well. In the past 25 or 30 years, there had been a shift towards the prioritization of price stability and balanced budgets at the expense of growth, employment and demand management. While that shift should not be entirely reversed, a strict focus on those predominantly financial-market criteria should be reconsidered when assessing the soundness of macroeconomic policies. It was misleading to see huge capital inflows as a sign of strength; just six months before the collapse of Iceland's economy, IMF had stated that the country was in an enviable position.

65. Again on the question of surveillance, the Governments which relied on IMF, not the Fund itself, were the ones responsible for translating the changes suggested by the Fund into stabilizing action. And to do so, Governments might need to give up a degree of national policy space for the sake of the stability of the world economy, which would in turn benefit them.

66. He had been happy to hear that IMF was rethinking its exchange rate management system since the existing system appeared chaotic. What distinguished the financial and monetary arena from the trade arena was precisely the lack of rules. As to who should make the necessary rules and how — a question raised by the representatives of Uruguay and IMF — it was the Member States which must come together and negotiate them without excluding the Fund as an excellent source of expertise and the United Nations system as a forum; IMF could not impose rules from the top down. The United Nations might propose that Member States make the issue a priority, for much more attention needed to be given to the importance of exchange rate stability for trade, growth and development. The actual design of the exchange rate management rules would, of course, bring technical tools into play. He had simply wanted to indicate a way

out of a dilemma that the international community had not resolved. UNCTAD had no blueprint for creating international financial rules and no body in mind that could supervise compliance, but certainly IMF would be one of those competent to do so.

67. The best way to deal with the international currency speculation referred to by the observer for Indonesia was to reduce the incentives for it. If the currency rate could not fluctuate as it did now — if, by rule, adjustments compensated for interest rate differentials — the effect would be to reduce speculation. A financial transaction tax that reduced the attractiveness of speculation could be useful as well. On the other hand, as long as no international mechanism existed to limit the scope of speculative gain, there were national measures that could be taken, such as controls on capital inflows, which might shelter countries from the negative impact of their international trading positions.

68. The influence of the financial sector was so great that everyone tried to satisfy its interests, but trying to please the market was very risky. Markets did not create real wealth; they were merely an instrument that allowed the real economy to create productive capacity. The prevalent attitude, which had led to the crisis, and the criteria for the soundness and sustainability of policies needed rethinking. IMF programmes that focused on specific objectives in order to make countries attractive to foreign financial-market investors in search of profit had led to undesired results.

69. It was true that IMF could be seen as a credit union whose resources were to be preserved but, while that was an important function, the Fund should also be given a broader role more like that of a central bank that created its own liquidity.

70. Regional monetary cooperation could stabilize the macroeconomic situation at the regional, but not the global, level. Moreover, it would require one member of the regional group to issue a reserve currency and would doubtless create problems of conditionality and democratic hierarchy similar to those that had arisen under IMF. Reserve pooling, as practised in Latin America and Asia, was too new to assess accurately but could only be a second-best solution.

71. **Mr. Vos** (Director, Development Policy and Analysis Division, Department of Economic and Social Affairs), replying to questions from several participants, said that the United Nations had no official position yet on the role that it should take in ensuring policy coherence and reforms; it was up to Member States to define that role. In any event, the Organization, its specialized agencies and the Bretton Woods institutions were putting economic governance reform on their agendas and the governance of long-term issues ultimately needed to be embedded in a multilateral process with links to platforms such as the Group of Twenty. The first thing to be decided was which governance functions needed to be reformed in the coming years.

72. Coherence was essential in determining what would work — in surveillance, in macroeconomic policy coordination and in the reserve system. Recent IMF attempts at multilateral surveillance had failed because they were too voluntaristic and unenforceable at country level. The Group of Twenty had set up a framework for balanced, sustainable growth of the world economy, yet such macroeconomic policy coordination would not result in the desired growth unless the systematic flaw in the currency reserve system was remedied, obviating the need for countries to accumulate huge reserves. All reforms thus had to proceed sequentially and concomitantly. One solution to rebalancing the world economy, for example, might be massive investment in the energy sector with technical and financial transfers to the developing world, reversing the current pattern of transfers from the developing to the developed countries. There again, the United Nations should take the lead, with its broader view of climate change, financial and economic issues and employment and development agendas, all core areas in which it must adapt its institutions and programmes as well as its structure.

Concluding comments and closure of the special high-level meeting

73. **The President** said that he was pleased to accept the invitation from the Dean of the Board of Directors of the World Bank to present the results of the special meeting with the Bretton Woods institutions to the Development Committee during the April 2010 meetings of the World Bank and IMF.

74. In summation, he recalled that the statements made at the opening session of the special meeting had identified a number of factors that were crucial to achievement of the MDGs, including productive

capacity-building through job creation in the developing countries; policy space that would allow those countries to pursue their development goals; reduction of imbalances in the global economy and in the enjoyment of its benefits; intensified efforts by the Bretton Woods institutions to provide financing in the wake of the crisis; ongoing reform of the World Bank; conclusion of the Doha Round, complemented by targeted Aid for Trade in developing countries; legal predictability in, and a clear mechanism for, debt restructuring; greater cooperation between the United Nations and the Bretton Woods institutions in the interests of policy coherence; and a greater coordinating role for the Economic and Social Council in international development cooperation.

75. In the debate on Theme 1, the continuing impact of the crisis had been noted in terms of few employment opportunities, a downturn in growth greater than the rebound in the poorer countries, and the severe effect on migrant workers in some areas; a coordinated international response had been considered essential. It had been emphasized that the situation in each country determined how it would balance the requirements of the economic and social sectors and that good governance was essential. Several speakers had called for the developing countries to be given a greater say in decisions of the Bretton Woods institutions. Although it had been noted that IMF conditionalities and programmes had been streamlined to allow for social expenditures, some had called for the abolishment of all conditionalities. It was also felt that traditional ways of mobilizing development assistance resources had to be supplemented by innovative sources of finance and improved tax administration as a means of domestic resource mobilization.

76. In the debate on Theme 2, it had been recognized that countries with special needs faced more challenges during crises; that the vulnerable segments of their population, particularly women and children, were the hardest hit; and that their rehabilitation, recovery and development should focus on increasing the productive capacity of their economies and generating decent jobs. Their governments should take the lead in building institutional and organizational capacity, coordinating economic activities and containing the social impact of crises, but they must be supported by a strong international partnership that gave a timely, integrated and coordinated response to crises, both in special-needs countries and in countries facing humanitarian emergency situations. National development efforts of those countries had to be buttressed by more cohesive, coordinated and comprehensive international development cooperation and by greater South-South cooperation.

77. In the debate on Theme 3, the point had been made that while the Group of Twenty was an improvement over the Group of Eight as the major forum for global discussion, it still excluded the majority of countries; the pressing needs facing the world were most legitimately addressed by the United Nations. Many participants had noted that the governance structure of the Bretton Woods institutions should better reflect current economic realities and give more representation to low-income countries, and some had called for bolder efforts in that regard. A few speakers had focused attention on the need for more effective multilateral instruments for broad-based precautionary financing that would offer a credible alternative to self-insurance by developing countries, while others had pointed out that many IMF programmes, though somewhat improved, were still prescribing pro-cyclical policies. The urgency of strengthening the mechanisms regulating financial flows had been underscored, as had the need to redress the deficiencies of the current international monetary system, which was almost exclusively based on the United States dollar; the international community had been urged to start discussions on an international reserve currency, including the issue of broadened SDR arrangements.

78. He declared closed the special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development.

The meeting rose at 6 p.m.